

TOWN OF PAOLI, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

TOWN OF PAOLI, OKLAHOMA
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YEAR ENDED JUNE 30, 2021

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Independent Auditor's Report

The Board of Trustees
Town of Paoli, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli, Oklahoma, as of and for the year ended June 30, 2021, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Paoli, Oklahoma as of June 30, 2021 and the changes in its modified cash basis financial position and, where applicable, its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

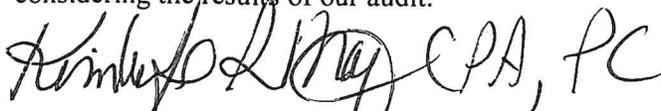
We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 1, 2023, on our consideration of the Town of Paoli, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

February 1, 2023

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Town of Paoli, Oklahoma

We have audited the financial statements of Town of Paoli, Oklahoma as of and for the year ended June 30, 2021 and have issued our report thereon dated February 1, 2023. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Paoli, Oklahoma's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses on pages 5-6 as items #2020-1 through 2020-2, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Paoli, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

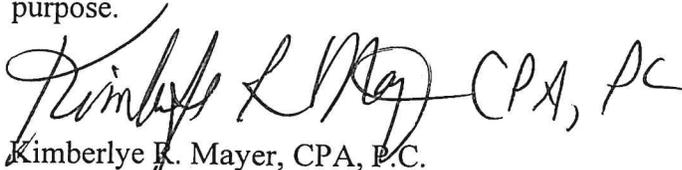
express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Paoli, Oklahoma's Response to Findings

The Town of Paoli, Oklahoma 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Paoli, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kimberlye E. Mayer CPA, PC". The signature is written in a cursive style.

Kimberlye E. Mayer, CPA, P.C.

Blackwell, Oklahoma

February 1, 2023

TOWN OF PAOLI, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2021

2020-1:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Design of Controls Over the Utility Deposits:

Criteria: Review procedures are needed to provide oversight and accountability in the utility processes. The reconciliation and review of the utility accounts is an important control activity needed to adequately protect the Town's assets and to ensure accurate financial reporting.

Condition: The same employee maintains the utility billing system, collects, records and deposits the utility payments. The outside CPA that the Town utilizes to reconcile the revenues was not able to accurately match up certain deposits with the Town's records. Deposits were not timely made. There is only limited oversight provided over this employee in the conduct of their daily functions.

Cause: There are no reviews or oversight procedures within the Town to ensure that all utility activities are reviewed and accurately reported.

Effect: Without sufficient oversight of the utility deposits and the billing system, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriations of assets, could occur and not be detected within a timely basis.

Recommendation: The Trustees should evaluate the risks associated with the lack of oversight in the utility system and consider implementing controls that could mitigate these risks.

Trustee's Response: The trustees will discuss and evaluate ways to establish better oversight procedures in order to improve the Town's accountability for its assets.

2020-2:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Design of Controls Over Citation Deposits and Receivables:

Criteria: Review procedures are needed to provide oversight and accountability in the citation processes. The reconciliation and review of the citations process is an important control activity needed to adequately protect the Town's assets and to ensure accurate financial reporting.

Condition: The same employee maintains the citation processes which includes deposits, collections, and maintaining the accounts receivable for these citations. There is no accurate record that ties the payments to the deposits and to the citation receivables.

Cause: There are no reviews or oversight procedures within the Town to ensure that all citations are accurately collected and reported.

TOWN OF PAOLI, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2021

2020-2 continued:

Effect: Without sufficient oversight of the citation processes, the risk significantly increases that errors and/or fraud related to the citations issued and collected, could occur and not be detected within a timely basis.

Recommendation: The Trustees should evaluate the risks associated with the lack of oversight over the citation processes and consider implementing controls that could mitigate these risks.

Trustee's Response: The trustees will discuss and evaluate ways to establish better oversight procedures in order to improve the Town's accountability for its assets.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 71,339	\$ 70,676	\$ 142,015
Certificates of deposit			
Due from other funds	462	145	607
Capital assets (Note 2):			
Land	5,000	4,134	9,134
Capital assets (net of accumulated depreciation)	212,719	567,766	780,485
Total Assets	<u>289,520</u>	<u>642,721</u>	<u>932,241</u>
Liabilities:			
Payroll withholding	2,321	1,898	4,219
Due to other funds	145	462	607
Customer meter deposits		17,373	17,373
Capital lease payable (Note 3)			0
Total Liabilities	<u>2,466</u>	<u>19,733</u>	<u>22,199</u>
Net Position:			
Net investment in capital assets	217,719	571,900	789,619
Restricted for:			
Cemetery care	2,036		2,036
Unrestricted	67,299	51,088	118,387
Total Net Position	<u>\$ 287,054</u>	<u>\$ 622,988</u>	<u>\$ 910,042</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2021

Function/Program	Program Revenue			Net (Expense) Revenue & Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General Government	\$ 64,549	\$ 1,200	\$	\$ (63,349)	\$	\$ (63,349)
Public Safety	140,345	5,046	32,487	(9,640)		(9,640)
Cemetery	6,235	1,736		(2,474)		(2,474)
Streets	11,515	4,389		(7,126)		(7,126)
Culture and Recreation	2,059			(2,059)		(2,059)
Total government activities	224,703	12,371	32,487	(84,648)		(84,648)
Business-type activities:						
Water	85,065				5,096	5,096
Sewer	85,375				(30,308)	(30,308)
Sanitation	49,893				15,310	15,310
Total business-type activities	220,333				(9,902)	(9,902)
Total government	\$ 445,036	\$ 305,628	\$ 12,371	\$ (84,648)	\$ (9,902)	\$ (94,550)
General Revenues:						
Taxes:						
Sales and use taxes				87,236		87,236
Franchise taxes				14,061		14,061
Other taxes				9,384		9,384
Investment income				100	90	190
Miscellaneous				7,293	12,321	19,614
Loss on disposal of asset				(27,777)		(27,777)
Total general revenues				90,297	12,411	102,708
Change in net position before transfers				5,649	2,509	8,158
Transfers in (out)						
Change in net position				5,649	2,509	8,158
Net position - beginning of year				281,405	# 620,479	901,884
Net position - end of year				\$ 287,054	\$ 622,988	\$ 910,042

The accompanying report and notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF PAOLI
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 69,303	\$ 2,036	\$ 71,339
Certificates of deposit			
Due from other funds	462		462
Total Assets	69,765	2,036	71,801
Liabilities and Fund Balance:			
Liabilities:			
Payroll withholding	2,321		2,321
Due to other funds	145		145
Total Liabilities	2,466		2,466
Fund balances:			
Nonspendable			
Restricted		2,036	2,036
Committed			
Assigned			
Unassigned	67,299		67,299
Total Fund Balances	\$ 67,299	\$ 2,036	\$ 69,335

RECONCILIATION TO STATEMENT OF NET POSITION:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$557,667, net of accumulated depreciation of \$339,948 are not financial resources and, therefore, are not reported in the funds. 217,719

Capital leases are not due and payable in the current period and therefore are not reported in the funds. _____

Net position of governmental activities \$ 287,054

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 115,070	\$	\$ 115,070
Charges for services	1,950	75	2,025
Fines and fees	93,172		93,172
Investment income	36	64	100
Grants and donations	40,469		40,469
Miscellaneous	7,294		7,294
Total Revenues	257,991	139	258,130
Expenditures:			
Current:			
General Government	61,355		61,355
Police Department	86,946		86,946
Fire Department	36,849		36,849
Streets	10,005		10,005
Cultural and Recreation	667		667
Cemetery	16,234		16,234
Debt Service:			
Capital lease principle	5,159		5,159
Total Expenditures	217,215	0	217,215
Excess (deficiencies) of revenues over expenditures	40,776	139	40,915
Other Financing Sources (Uses):			
Transfers in (out)	20,876	(20,876)	0
Net changes in fund balances	61,652	(20,737)	40,915
Fund balances, beginning of year	5,647	22,773	28,420
Fund balances, end of year	\$ 67,299	\$ 2,036	\$ 69,335

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Net changes in fund balances - total governmental funds	\$ 40,915
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital assets purchased	15,399
Loss on disposal of asset	(27,777)
Capital lease payment	5,159
Depreciation expense	(28,047)
	(35,266)
Change in Net Assets of Governmental Activities	\$ 5,649

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2021

	Public Works Authority Enterprise Fund
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 70,676
Due from other funds	145
Total Current Assets	70,821
Noncurrent Assets:	
Land	4,134
Other capital assets, net of accumulated depreciation (Note 2)	567,766
Total Noncurrent Assets	571,900
Total Assets	642,721
Liabilities:	
Current Liabilities:	
Payroll withholdings	1,898
Due to other funds	462
Total Current Liabilities	2,360
Noncurrent liabilities:	
Customer meter deposits	17,373
Total Noncurrent Liabilities	17,373
Total Liabilities	19,733
Net Position:	
Net investment in capital assets	571,900
Restricted for debt service	
Unrestricted	51,088
Total Net Position	\$ 622,988

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2021

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 90,161
Sewer	55,067
Sanitation	65,203
Grants	
Other income	12,321
Total Operating Revenues	222,752
Operating Expenses:	
Water Department	69,711
Sewer Department	75,998
Sanitation Department	38,790
Depreciation	35,834
Total Operating Costs	220,333
Operating income (loss)	2,419
Non-Operating Revenues (Expenses):	
Interest income	90
Interest expense	
Total Non-Operating Revenues (Expenses)	90
Changes in Net Position	2,509
Transfers	
Net Position, beginning of year	620,479
Net Position, end of year	\$ 622,988

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2021

Cash Flows From Operating Activities:	
Cash received from customers	\$ 222,752
Other operating cash receipts	
Cash payments to suppliers for goods and services	(129,065)
Cash payments to employees	(53,356)
Net cash provided (used) by Operating Activities	40,331
Cash Flows From Non-Capital Financing Activities:	
Cash Flows From Capital And Related Financing Activities:	
Transfers in (out)	
Acquisition and construction of capital assets	(17,267)
Loan proceeds	
Principle payments	
Interest payments	
Net cash provided (used) by Financing Activities	(17,267)
Cash Flows From Investing Activities:	
Interest on cash and investments	90
Change in due to (from)	
(Increase) decrease in restricted accounts	
Net cash provided (used) by Investing Activities	90
Net increase (decrease) in cash and cash equivalents	23,154
Beginning cash and cash equivalents	47,522
Ending cash and cash equivalents	\$ 70,676
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	2,419
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	35,834
Change in assets and liabilities:	
Due from other funds	79
Payroll liabilities	953
Due to other funds	462
Customer deposits	584
Net cash provided (used) by operating activities	\$ 40,331

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Paoli, Oklahoma (Town) operates under the Town Board of Trustees form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Paoli, Oklahoma
Blended Component Unit: Town of Paoli, Oklahoma Public Works Authority

Blended Component Unit

The Paoli Public Works Authority (PWA), an entity legally separate from the Town but having the Town as its beneficiary, is governed by the same board of trustees as governs the Town. For financial reporting purposes, the PWA is reported as if it were part of the Town's operations because its primary purpose is to finance and provide water, sewer, and trash services to the citizens of the Town.

Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds for that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprises fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental Funds

The General Fund is the primary fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, all of which are reported as non-major funds:

Cemetery Care Fund – used to account for 12 ½% of revenue from lot sales. These funds are restricted for purchasing cemetery land or making cemetery capital improvements.

Proprietary Funds

The enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Public Works Authority Fund. This fund is used to account for the activities in providing water, sewer, and sanitation services to the public. This fund is classified as a major fund.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and propriety fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Equity Classification

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable fund balance: This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted fund balance: This classification includes revenue sources that are restricted to specific purposes internally imposed by creditors, grantors or imposed by law.

Committed fund balance: This classification includes the portion of fund balance that can only be used for specific purposes imposed by a majority vote of the Town's trustees.

Assigned fund balance: This classification includes a portion of fund balance that has been budgeted by the board of trustees.

Unassigned fund balance: This classification includes a portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

Budget Policy and Practice

An annual budget is submitted to the Town Trustees for review, and public hearings are held to address the budget. Once the budget is approved, the Town Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Revenues are budgeted by source, and expenditures are budgeted by department and class as follows: personal services, materials and supplies, other services and charges, and capital outlay. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions are subject to final review by the Town Trustees.

The budget for the operating funds is prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders is expected to be paid. The actual financial statements are reported on the modified cash basis.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

Budget and Budgetary Accounting

The Town adopts annual budgets for the general and proprietary funds.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts (excluding restricted accounts) and certificates of deposit with a maturity of three months or less.

NOTE 2 – PROPERTY AND EQUIPMENT:

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations, are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 2 - PROPERTY AND EQUIPMENT (continued):

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2021 was as follows:

	Balance at June 30, 2020	Additions	Deductions	Balance at June 30, 2021
Governmental activities:				
Fire Department equipment	\$ 172,526	\$	\$	\$ 172,526
Police Department equipment	110,714	11,821	(46,221)	76,314
Parks and Recreation	52,054			52,054
Land	5,000			5,000
Buildings	153,269			153,269
General equipment	2,525	9,999		12,524
Street improvements	85,979			85,979
Totals	<u>582,067</u>	<u>21,820</u>	<u>(46,221)</u>	<u>557,666</u>
Less accumulated depreciation:				
Equipment	229,741	22,521	(12,023)	240,239
Buildings	70,296	4,016		74,312
Street improvements	23,886	1,510		25,396
Totals	<u>323,923</u>	<u>28,047</u>	<u>(12,023)</u>	<u>339,947</u>
Capital assets, net	<u>\$ 258,144</u>	<u>\$ (6,227)</u>	<u>\$ (34,198)</u>	<u>\$ 217,719</u>
Business-type activities:				
Land	\$ 4,134	\$	\$	\$ 4,134
Buildings	21,674			21,674
Utility equipment	295,877			295,877
Water & sewer system	1,150,705	17,267		1,167,972
Totals	<u>1,472,390</u>	<u>17,267</u>		<u>1,489,657</u>
Less accumulated depreciation:				
Buildings	21,672			21,672
Utility equipment	235,916	13,233		249,149
Water & sewer system	624,335	22,601		646,936
Totals	<u>881,923</u>	<u>35,834</u>		<u>917,757</u>
Capital assets, net	<u>\$ 590,467</u>	<u>\$ (18,567)</u>	<u>\$</u>	<u>\$ 571,900</u>

NOTE 3 - CAPITAL LEASE OBLIGATION:

The Town paid off the lease on the police vehicle in this fiscal year.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 4 - LONG TERM DEBT:

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

There is no long-term debt at June 30, 2021 as the result of governmental activities. The long-term debt arising from cash transactions, payable from proprietary fund resources consists of the following:

Refundable deposits reported as a liability within the Statement of Net Position utility deposits.	\$ 17,373
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The following is a summary of changes in long-term debt for the year ended June 30, 2021:

	Balance <u>6/30/20120</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2021</u>	Amounts Due <u>Within One Year</u>
Loans	\$	\$	\$	\$	\$
Refundable deposits	16,789	584		17,373	
Totals	<u>\$ 16,789</u>	<u>\$ 584</u>	<u>\$ 0</u>	<u>\$ 17,373</u>	

NOTE 5 – CASH AND DEPOSITS:

The State of Oklahoma allows municipalities to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts of savings certificates; or county, municipal or school district direct debt.

Cash and deposits are categorized for level of risk as follows:

- Category 1 – Insured or collateralized with securities held by the Town or by its agent in the Town’s name.
- Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the Town’s name.
- Category 3 – Uncollateralized

TOWN OF PAOLI
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

NOTE 5 - CASH AND DEPOSITS, (continued):

Cash and deposits, categorized by level of risk, at June 30, 2021 are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 167,872	\$ 167,872	\$	\$	\$ 142,015
Certificates of deposit					
Totals	<u>167,872</u>	<u>167,872</u>	<u></u>	<u></u>	<u>142,015</u>

NOTE 6 – EQUITY CLASSIFICATION:

Equity in government-wide financial statements is classified as 'net' position and displayed in three components:

Investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position: All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE 7 - PENSION PLAN:

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The total contributions for the year ended June 30, 2021, was \$1,200 and covered 20 volunteers.

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the Town's own assumptions in determining the fair value of investments).

The Town's financial instruments include cash and cash equivalents and certificates of deposit. The Town's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 10 – RISK MANAGEMENT:

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims activity for the year just ended.

NOTE 11 – CONTINGENCIES:

As of June 30, 2021, the Town did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through February 1, 2023, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 5,647	\$ 5,647	\$ 5,647	\$
Resources (Inflows):				
Sales tax	40,000	57,000	62,983	5,983
Use tax	15,000	19,000	24,253	5,253
Franchise taxes	14,000	14,000	14,061	61
Alcoholic beverage tax	8,000	8,000	8,842	842
Tobacco tax	300	300	542	242
Motor vehicle and gas taxes	5,000	5,000	4,389	(611)
Fines	40,000	66,820	93,172	26,352
Other revenues	2,500	2,500	9,244	6,744
Grants/donations		31,230	40,469	9,239
Interest	100	100	36	(64)
Total Resources	<u>124,900</u>	<u>203,950</u>	<u>257,991</u>	<u>54,041</u>
Charges (Outflows):				
General Government:				
Materials and supplies	4,000	4,000	3,188	812
Other services and charges	10,000	37,500	48,830	(11,330)
Capital outlay		0	0	0
Total General Government	<u>14,000</u>	<u>41,500</u>	<u>52,018</u>	<u>(10,518)</u>
Parks:				
Materials and supplies				0
Other services and charges	2,000	2,000	667	1,333
Capital outlay				0
Total Parks & Recreation	<u>2,000</u>	<u>2,000</u>	<u>667</u>	<u>1,333</u>
Fire:				
Materials and supplies	1,000			0
Other services and charges	2,500	5,500	5,889	(389)
Capital outlay		20,200	30,960	(10,760)
Total Fire	<u>3,500</u>	<u>25,700</u>	<u>36,849</u>	<u>(11,149)</u>
Police:				
Personnel services	50,000	37,000	35,779	1,221
Materials and supplies	4,000	9,500	10,727	(1,227)
Other services and charges	20,000	25,500	24,415	1,085
Capital outlay	0	10,500	10,498	2
Total Police	<u>74,000</u>	<u>82,500</u>	<u>81,419</u>	<u>1,081</u>
Street and Alley:				
Materials and supplies	500			0
Other services and charges	10,000	11,000	10,005	995
Total Street and Alley	<u>10,500</u>	<u>11,000</u>	<u>10,005</u>	<u>995</u>

"Unaudited Supplementary Information"

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND (Continued)
 YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Municipal Court:	\$	\$	\$	\$
Personnel services	1,650	8,150	8,286	(136)
Other services and charges	2,400	2,400	2,400	0
Total Municipal Court	4,050	10,550	10,686	(136)
Animal Control:				
Materials and supplies				0
Other services and charges	150			0
Total Animal Control	150	0	0	0
Town Clerk/Treasurer:				
Personnel services	8,000	9,000	7,751	1,249
Town Attorney:				
Other Services and Charges	2,000			0
Maintenance:				
Materials and supplies	200	200		200
Other services and charges	2,000	2,000	1,586	414
Capital outlay				0
Total Maintenance	2,200	2,200	1,586	614
Cemetery:				
Personnel services		1,000	180	820
Materials and supplies	9,500	2,500	505	1,995
Other services and charges	9,000	6,000	5,550	450
Capital outlay		10,000	9,999	1
Total Cemetery	18,500	19,500	16,234	3,266
Total Charges	138,900	203,950	217,215	(13,265)
Other Financing Sources:				
Transfer from other funds	14,000		20,876	20,876
Transfer to other funds				
Total Other Financing Sources	14,000	0	20,876	20,876
Ending budgetary fund balance	\$ 5,647	\$ 5,647	\$ 67,299	\$ 61,652

TOWN OF PAOLI, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2021

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act. In accordance with these provisions the following process is used to adopt the annual budget:

1. At least 30 days prior to July 1, a proposed operating budget is submitted to the Town Council.
2. A public hearing is held no later than 15 days prior to July 1 for citizen comments.
3. Subsequent to the public hearings but no later than 7 days prior to July 1, the budget is adopted by resolution of the Town Council.
4. The adopted budget is filed with the Office of State Auditor and Inspector.

The level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Fund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions. The Town does not budget for depreciation.